MJIFM | MAJAPAHIT JOURNAL OF ISLAMIC FINANCE AND MANAGEMENT

Vol. 5 No. 4, 2025, 3794–3805 e-ISSN 2798-0170

STRATEGIES OF ISLAMIC BANKS IN REDUCING NON-PERFORMING FINANCING (NPF): A CASE STUDY AT BPRS BANGKA BELITUNG BRANCH

Nur Hidayati
Universitas Pertiba, Pangkalpinang, Bangka Belitung
n.ida.pkpinang@gmail.com

Abstract

Problematic financing or Non-Performing Financing (NPF) is one of the main challenges faced by Islamic banking in maintaining financial stability and soundness. A high level of NPF can negatively affect profitability, liquidity, and customer trust in the bank. This study aims to analyze the strategies implemented by Islamic banks in reducing problematic financing. The research method used is descriptive qualitative with a case study approach at *Bank Pembiayaan Rakyat Syariah (BPRS) Bangka Belitung*. The results of the study indicate that the average Non-Performing Financing (NPF) ratio remains higher than the standard set by the Financial Services Authority (OJK), which is 5%, and the internal standard of BPRS Bangka Belitung, which is 7%. The strategies carried out by BPRS Bangka Belitung include direct collection, write-off for fully provisioned (100%) PPAP accounts, restructuring, collection through third parties, and simplified lawsuits through the religious court. These strategies have become key measures in reducing the NPF rate. To further optimize the results, it is necessary to strengthen preventive actions at the financing analysis stage through the 5C analysis (Character, Capacity, Capital, Collateral, and Condition) or more comprehensively with 7P analysis (Personality, Purpose, Prospect, Payment, Party, Profitability, and Protection). Strengthening these analytical processes can minimize the occurrence of problematic financing and enhance sustainable performance improvement.

Keywords: Islamic Bank, Problematic Financing, Non-Performing Financing (NPF), Strategy, Risk Management

Vol. 5 No. 4, 2025, 3794–3805 e-ISSN 2798-0170

INTRODUCTION

The development of the Islamic banking industry in Indonesia has shown a positive and significant trend. The Indonesian community—particularly in Bangka Belitung, where the majority of the population is Muslim—has a high awareness of conducting transactions in accordance with Islamic principles. As a result, Islamic banks have grown to become an essential pillar in both national and regional financial systems. Unlike conventional banks, Islamic banking operations are based on the principles of profit and loss sharing (mudharabah and musyarakah), trade-based contracts (murabahah), and leasing (ijarah), which emphasize justice, transparency, and the avoidance of *riba* (usury). As an intermediary institution, Islamic banks collect funds from the public (third-party funds) and channel them into financing the real sector. Furthermore, their operations are focused on financial transactions free from *riba*, as it is prohibited in Islam. The profit-sharing principle applied in Islamic financing reflects shared risks and returns between the bank as the capital provider and the customer as the business manager.

Non-Performing Financing (NPF) serves as a primary indicator of financing risk faced by Islamic banks. NPF measures the ratio of customers who fail to fulfill their financing obligations (principal, margin, or profit-sharing) according to the agreed schedule. The Financial Services Authority (OJK) sets a safe NPF threshold of below 5% (for net NPF) as an indicator of banking health (*asset quality*). Meanwhile, Bank Pembiayaan Rakyat Syariah (BPRS) Bangka Belitung sets its internal NPF standard at 7%. A high NPF can lead to financial losses for the bank because when customers default on financing, the bank's operational funds and profit-sharing distributions are disrupted due to idle and illiquid funds. This condition also reduces potential income from financing, directly eroding bank profitability and lowering the Return on Assets (ROA). Losses from problematic financing that must be written off further reduce the bank's core capital. A significant decline in capital weakens the bank's Capital Adequacy Ratio (CAR), indicating a reduced ability to absorb future losses. Moreover, a high NPF level damages the bank's reputation, as it implies inefficiency in creditworthiness assessment and risk management. Consequently, this situation can decrease depositor and investor confidence and lead to stricter supervision by regulators.

The types of financing provided by BPRS Bangka Belitung include vehicle financing, working capital financing, teacher certification financing, and

Vol. 5 No. 4, 2025, 3794–3805 e-ISSN 2798-0170

multipurpose financing. The average Non-Performing Financing (NPF) ratio for these four categories is presented below:

Table 1.
Average Non-Performing Financing (NPF)

Year	Average NPF
2020	31,84%
2021	39,44%
2022	35,3%
2023	31,51%
2024	13,59%

Source: Processed data from BPRS Bangka Belitung

The initial data above indicate that the average Non-Performing Financing (NPF) remains high compared to the ideal net NPF category established by the Financial Services Authority (OJK) and Bank Indonesia. Therefore, appropriate strategies are required to reduce and minimize problematic financing, as reflected in the NPF ratio level of BPRS Bangka Belitung.

The purpose of this study is to describe the strategies implemented by Bank Pembiayaan Rakyat Syariah (BPRS) Bangka Belitung in managing and reducing problematic financing or Non-Performing Financing (NPF). The findings of this study are expected to contribute theoretically to the development of financing risk management knowledge in Islamic banking, and practically to provide insights for Islamic banks in formulating effective strategies to reduce problematic financing or NPF. The research question formulated is: *What strategies are implemented by Bank Pembiayaan Rakyat Syariah (BPRS) Bangka Belitung to manage and reduce Non-Performing Financing (NPF).*

LITERATURE REVIEW

Islamic Financing

Antonio (2001) stated that financing refers to the provision of funds or facilities to meet the needs of deficit units based on Sharia principles. In Islamic financing, funding is not based on the interest system (*riba*) as in conventional banking, but rather on lawful (*halal*) contracts rooted in justice, to foster the Muslim economy through productive and lawful activities. It also aims to

Vol. 5 No. 4, 2025, 3794–3805 e-ISSN 2798-0170

improve social welfare through fairness and mutual assistance (*ta'awun*) and to promote equitable wealth distribution without exploitation. From these objectives, it can be understood that financing in Islam is not merely profit-oriented but also carries moral and social dimensions.

According to Kasmir (2019), financing analysis is a process to assess the capability and willingness of prospective debtors to fulfill their obligations in accordance with the agreement. This analysis can be conducted using the following approaches:

1. 5C Analysis (Character, Capacity, Capital, Collateral, and Condition)
   a. Character: The personality, integrity, and morality of the prospective customer; assessing honesty and good faith.
   b. Capacity: The customer's ability to manage their business and generate income to meet obligations.
   c. Capital: The customer's financial strength and equity condition as business support.
   d. Collateral: Assets pledged as security to minimize financing risks, though not the main priority.
   e. Condition: Economic conditions, industry trends, and external factors affecting business feasibility.
2. 7P Analysis (Personality, Purpose, Prospect, Payment, Party, Profitability, and Protection)
   a. Personality: Evaluating the character, moral conduct, and integrity of the prospective customer, including honesty, responsibility, and community reputation, to ensure good faith in fulfilling obligations.
   b. Purpose: Assessing the purpose of the financing; the bank must ensure that the funds are used for productive and lawful purposes, not for speculation or high-risk consumption, and in compliance with Islamic principles.
   c. Prospect: Evaluating the future outlook of the financed business—whether it has profit potential, market stability, and growth opportunities. A good business prospect indicates a stronger repayment ability.
   d. Payment: Analyzing the customer's repayment ability based on financial statements, cash flow, and business income. In Islamic financing, this relates to the customer's ability to share profits or return the principal.
   e. Party: Classifying customers based on their risk profile, such as new customers, existing customers with good credit records, or problematic customers. This helps determine appropriate financing policies and trust levels.

Vol. 5 No. 4, 2025, 3794–3805 e-ISSN 2798-0170

f. Profitability: Measuring how well the customer's business can generate profits through financial ratios such as profit margin, return on investment (ROI), and cash flow. Stable profitability indicates a sound repayment capacity.
g. Protection: Assessing the collateral or other guarantees that can minimize potential losses in case of default. Protection may include insurance, collateral assets, or guarantors. In Islamic principles, this serves as risk mitigation rather than asset seizure.

Non-Performing Financing (NPF)

According to the Financial Services Authority (OJK, 2022), Non-Performing Financing (NPF) refers to financing categorized as substandard, doubtful, or bad within Islamic banks. Meanwhile, Ismail (2011) defined problematic financing as financing that faces difficulties in repayment, either due to internal factors of the bank, external customer factors, or general economic conditions. Thus, NPF represents a ratio that reflects a bank's ability to manage its financing portfolio. The higher the NPF ratio, the lower the asset quality and the higher the potential loss. NPF is an essential indicator in assessing the financial health of Islamic banks. A high NPF indicates weaknesses in credit analysis, monitoring, and risk management systems.

Financing Risk Management

Riduan (2022) emphasized that managing financing risks in Islamic banking requires an understanding of both *ushuliyyah* (Islamic legal principles) and modern management practices to ensure effective risk management processes. Several *ushul fiqh* principles that serve as guidelines include:
1. All forms of harm (*mudharat*) must be eliminated.
2. Preventing harm (*mafsadah*) takes precedence over attaining benefit (*maslahah*).
3. Wherever there is benefit (*maslahah*), there exists Sharia.

The importance of risk management in Islamic banking is based on several key considerations:
1. Islamic banks are responsible for maintaining Sharia compliance, as violations increase risk exposure.
2. Islamic banking operates on the foundation of trust (*amanah*); thus, violating this trust (*khianah*) constitutes unethical and fraudulent behavior.
3. Customers and stakeholders of Islamic banks entrust their funds and interests fully, making it obligatory for banks to uphold this trust.

Vol. 5 No. 4, 2025, 3794–3805 e-ISSN 2798-0170

4. Failure to manage risks effectively can lead to systemic risk, potentially harming the national economy.

Effective risk management requires a sound system and continuous implementation. Key principles in Islamic banking risk management include transparency, accurate measurement, timely and high-quality information, product diversification, managerial independence, disciplined decision-making, and consistent policies.

Strategies for Managing Problematic Financing

The strategies for handling problematic Islamic financing (commonly referred to as Non-Performing Financing or NPF) in Islamic financial institutions are based on two core principles: customer recovery and justice in accordance with Sharia, before resorting to liquidation of collateral. The main strategies are applied progressively as follows:

1. Preventive Strategies
   According to Kasmir (2019), the most important preventive measure to avoid problematic financing is conducting an in-depth feasibility analysis using the 5C and 7P principles, accompanied by the application of prudential banking practices in every financing process. After financing is disbursed, the bank must carry out regular monitoring and supervision of the customer's business performance. Additionally, portfolio diversification, accurate collateral valuation, and enhanced human resource competency are crucial factors in maintaining financing quality. Kasmir also emphasized the importance of educating customers to foster healthy partnerships between banks and clients, aligning with Islamic values of trust (amanah) and justice ('adl).
2. Rescue and Restructuring Strategies
   In accordance with Bank Indonesia Regulation No. 10/18/PBI/2008, restructuring can be implemented through three main mechanisms known as the 3Rs:
   1) Rescheduling: Modifying the payment schedule and/or extending the financing period without altering the agreed principal or profit margin (*murabahah*) at the beginning of the contract.
   2) Reconditioning: Altering part or all of the financing terms and conditions.
   3) Restructuring: Changing financing terms by providing additional funding (new financing) to help the customer overcome working capital problems. In *murabahah* contracts, this requires a new contract. Conversion of the

MJIFM | MAJAPAHIT JOURNAL OF ISLAMIC FINANCE AND MANAGEMENT
Vol. 5 No. 4, 2025, 3794–3805 e-ISSN 2798-0170

financing type (e.g., from *murabahah* to *musyarakah*) is also possible if deemed suitable.

RESEARCH METHOD

This study employs a descriptive qualitative approach, which aims to describe and gain an in-depth understanding of the strategies implemented by Bank Pembiayaan Rakyat Syariah (BPRS) Bangka Belitung in reducing problematic financing or Non-Performing Financing (NPF). The research was conducted at Bank Pembiayaan Rakyat Syariah (BPRS) Bangka Belitung, located at TJ Tower, Jl. Kampung Melayu, Bukit Merapin, Pangkalpinang 33172. The data sources in this study consist of primary and secondary data. Primary data were obtained directly from informants through interviews, while secondary data were collected from the bank's internal documents and official website of BPRS Bangka Belitung. The data collection techniques included: In-depth interviews with relevant parties to identify the strategies and policies implemented to suppress the NPF ratio. Documentation, used to collect financial reports related to the percentage of NPF. The data analysis techniques involved presenting the data by organizing interview results into narrative descriptions, tables, and diagrams. Finally, conclusions and verification were drawn by identifying key patterns and main strategies applied in reducing Non-Performing Financing.

RESULTS AND DISCUSSION

PT. BPR Syariah Bangka officially began operations on June 3, 2002, inaugurated by Ir. H. Eko Maulana Ali, MSc, who was then the Regent of Bangka Regency. This Islamic bank, known as Bank Syariah Babel, was the first Islamic bank to operate in *Bumi Sepintu Sedulang*, *Negeri Serumpun Sebalai*, within the Province of Bangka Belitung Islands. The company is headquartered in Sungailiat District, Bangka Regency, under the name PT. BPR Syariah Bangka, based on Notarial Deed No. 09 dated February 15, 2002, and was officially approved by the Minister of Justice and Human Rights under Decree No. C-06603 HT.01.04.TH.2002 concerning the approval of the amendment to the Articles of Association of PT. Bank Perkreditan Rakyat Syariah Bangka.

As the number of shareholders increased, a change was made through the Extraordinary General Meeting of Shareholders (RUPS-LB), recorded in Notarial Deed No. 17 dated May 12, 2009, and approved by the Minister of Law and Human Rights of the Republic of Indonesia under Decree No. AHU-

Vol. 5 No. 4, 2025, 3794–3805 e-ISSN 2798-0170

30947.AH.01.02.2009, changing the company's name from PT. BPR Syariah Bangka to PT. BPR Syariah Bangka Belitung.

Based on the approval of the Minister of Law and Human Rights of the Republic of Indonesia through Decree No. AHU-0086486.AH.01.02.2024 dated December 31, 2024, and the Decree of the Head of the Financial Services Authority (OJK) of the Bangka Belitung Islands Province No. KEP-1/KO.1703/2025 dated January 16, 2025, the company's name has officially changed from PT. Bank Pembiayaan Rakyat Syariah Bangka Belitung to PT. Bank Perekonomian Rakyat Syariah Bangka Belitung.

Condition of Non-Performing Financing (NPF)

The following table presents the Non-Performing Financing (NPF) ratio of Bank Pembiayaan Rakyat Syariah (BPRS) Bangka Belitung:

Table 2.
Ratio Non-Performing Financing (NPF)

No	Year	Month	NPF Ratio (%)
1.	2020	March	27,95%
		June	38%
		September	29,65%
		December	31,79%
1.	2021	March	44,68%
		June	36,74%
		September	39,22%
		December	38,38%
2.	2022	March	35,9%
		June	35,54%
		September	36,36%
		December	33,4%
3.	2023	March	33,54%
		June	33,14%
		September	32,36%
		December	27%

Vol. 5 No. 4, 2025, 3794–3805 e-ISSN 2798-0170

4.	2024	March	14,46%
		June	14,4%
		September	13,75%
		December	11,75%

Source: BPRS Bangka Belitung (processed)

From the above data, it can be described that the average Non-Performing Financing (NPF) ratio from 2020 to 2024 remained relatively high and did not yet meet the standards set by Bank Indonesia (BI) or the Financial Services Authority (OJK), which is below 5%, nor the internal standard of BPRS Bangka Belitung, which is 7%. However, the trend shows a gradual improvement in the NPF condition over the five years.

The highest NPF ratio occurred in Q1 of 2021, reaching 44.68%. Based on interviews with one of the executives of BPRS Bangka Belitung, this spike was attributed to the unstable economic condition of the community as a result of the COVID-19 pandemic, as well as fraud cases, weak financing analysis, and insufficient monitoring of problematic financing. These factors led to a higher ratio of problematic financing. Therefore, BPRS Bangka Belitung continues to make significant improvements to enhance its performance by reducing the NPF ratio through a series of continuously implemented strategies, aiming to become a healthy bank in accordance with the standards set by Bank Indonesia (BI) and the Financial Services Authority (OJK). The following diagram illustrates more clearly the Non-Performing Financing (NPF) condition of BPRS Bangka Belitung from 2020 to 2024, presented on a quarterly basis.

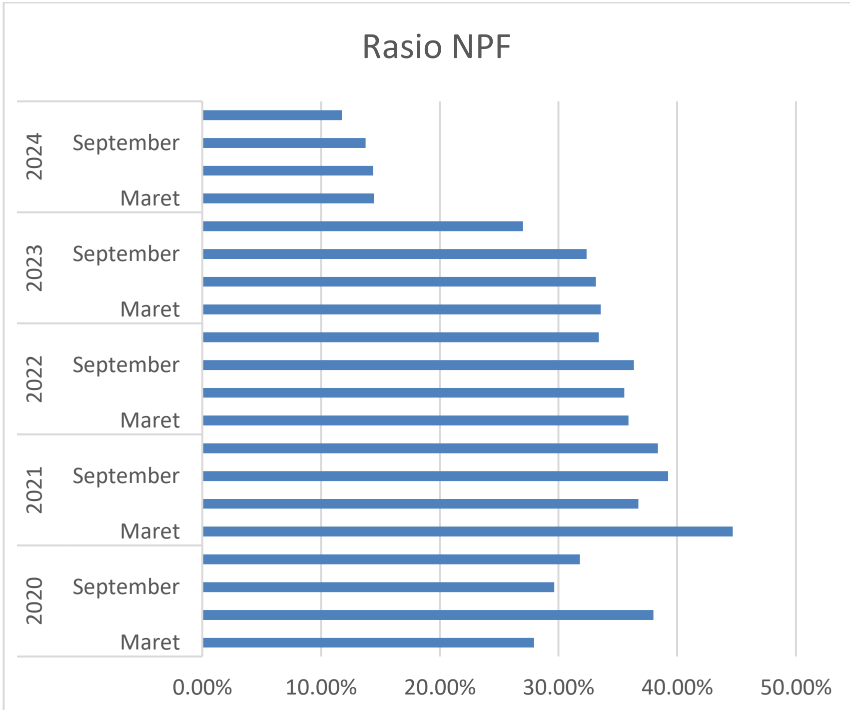

Diagram 1.
Non-Performing Financing (NPF) Ratio
Source: BPRS Bangka Belitung (processed)

Strategies for Reducing Non-Performing Financing (NPF)

The strategies and actions implemented by Bank Pembiayaan Rakyat Syariah (BPRS) Bangka Belitung to reduce Non-Performing Financing (NPF) are as follows:

1. Intensive direct collection, either through full repayment or gradual installment payments.
2. Write-off of customer financing whose Allowance for Earning Asset Losses (PPAP) reserves have been fully provided (100%).
3. Restructuring for customers who still have clear and reliable sources of repayment.
4. Collection through third parties based on a Memorandum of Understanding (MoU) with the Attorney General's Office.
5. Simple lawsuit (GS) through the Religious Court, summons (somasi) through BPRS Bangka Belitung's Legal Department, and auction of collateral (HT) through KPKNL (State Asset and Auction Service Office).

The percentage of Allowance for Earning Asset Losses (PPAP) is determined according to the payment quality of the customer's financing. The

Vol. 5 No. 4, 2025, 3794–3805 e-ISSN 2798-0170

following table presents the PPAP percentage based on the respective payment quality category:

Table 3.
Percentage of Allowance for Earning Asset Write-Off (PPAP)

No	Payment Quality	Description	%PPAP
1	K1, Current	On-time payment	0,5%
2	K2, Special Mention	< 90 days overdue	3%
3	K3, Substandard	90–120 days overdue	15%
4	K4, Doubtful	120–180 days overdue	50%
5	K5, Loss	>180 days overdue	100%

Source: Interview results

The strategies implemented by BPRS Bangka Belitung in managing problematic financing have proven to be effective in resolving Non-Performing Financing (NPF) issues. This effectiveness is evidenced by the quarterly report data, which show a consistent decline in the average annual NPF percentage, namely: 31.84% in 2020, 39.44% in 2021, 35.30% in 2022, 31.51% in 2023, and 13.59% in 2024.

CONCLUSION

The strategies implemented by BPRS Bangka Belitung in managing problematic financing have proven to be effective in resolving financing issues, as evidenced by quarterly reports and the average annual Non-Performing Financing (NPF) percentages, which show a declining trend from 2020 to 2024. The steps taken include direct collection, writing off financing accounts whose Allowance for Earning Asset Write-Off (PPAP) has reached 100%, restructuring financing for customers who still have a clear source of repayment, collection through third parties based on an MOU with the Prosecutor's Office, simple lawsuits through the Religious Court, summons (somasi) through the BPRS Bangka Belitung Legal Department, and auctioning collateral (HT) through the State Asset and Auction Service Office (KPKNL).

Preventive measures are also necessary to minimize the potential occurrence of problematic financing (NPF) — beginning from the initial financing stage, through feasibility analysis, customer selection, and continuous business monitoring. Therefore, the implementation of effective preventive actions not only reduces the NPF ratio but also supports the primary objectives

Vol. 5 No. 4, 2025, 3794–3805 e-ISSN 2798-0170

of Islamic banking—to maintain financial system stability and promote overall economic prosperity (*maslahah*).

REFERENCES

Antonio, M. S. (2001). *Bank syariah: Dari teori dan praktik*. Gema Insani.

Danupranata, G. (2016). *Manajemen perbankan syariah*. Salemba Empat.

Ismail. (2011). *Perbankan syariah*. Kencana Prenada Media Group.

Kasmir. (2019). *Manajemen perbankan* (Edisi revisi). RajaGrafindo Persada.

Nurhayati, S., & Wasilah. (2020). *Akuntansi syariah di Indonesia*. Salemba Empat.

Otoritas Jasa Keuangan. (2019). *Peraturan Otoritas Jasa Keuangan (POJK) Nomor 20/POJK.03/2019 tentang sistem penilaian tingkat kesehatan Bank Pembiayaan Rakyat Syariah*. Otoritas Jasa Keuangan.

Otoritas Jasa Keuangan. (2022). *Peraturan Otoritas Jasa Keuangan (POJK) Nomor 3/POJK.03/2022 tentang penilaian tingkat kesehatan Bank Perkreditan Rakyat dan Bank Pembiayaan Rakyat Syariah*. Otoritas Jasa Keuangan.

Peraturan Bank Indonesia Nomor 10/18/PBI/2008 tentang restrukturisasi pembiayaan bagi bank syariah dan unit usaha syariah. (2008). Bank Indonesia.

Riduan, P. (2022). *Manajemen risiko bank syariah di Indonesia*. UAD Press.

Roni, et al. (2025). *Manajemen pembiayaan syariah: Teori dan aplikasi terkini*. PT Sada Kurnia Pustaka.

Website BPR SB Babel. (2025, Oktober 31). *Restrukturisasi pembiayaan bagi Bank Pembiayaan Rakyat Syariah*. https://www.bprsbabel.id/2025/10/31

Yuriani, I., & Arista, S. R. (2023). Strategi preventif dan represif pembiayaan bermasalah untuk konsistensi kesehatan bank (studi kasus BSI KC Bojonegoro). *Jurnal Perbankan Syariah*, 3(2). https://doi.org/10.20414/jpsv3i2.10219